RICHARD RUSSELL'S **DOW THEORY LETTERS, INC.**

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July 15, 1981 **LETTER 813**

July 2, DJIA 959.19; PTI 1471; A-D ratio −18.18
July 10, DJIA 955.67; PTI 1475; A-D ratio −18.54

THE MARKET: In recent Letters I stressed the importance of the May 11 lows of 963.44 for the D-J Industrials and 410.28 for the Transports. I stated that those were the *primary points* which, if violated, would signal a turn in the tide.

On July 2 the two Averages broke simultaneously below their May 11 lows. Authoritative NYSE volume of 45 million shares accompanied the penetrations. On the method of reading the Averages taught by Charles H. Dow, a primary bear market is now in force.

On the same day (July 2) my Primary Trend Index broke below its secondary trendline, a rising trendline that had held intact since last December. This action added authority to the Dow Theory bear signal. The PTI is now in position to test its main rising trendline, a trendline that has been in force for over a year.

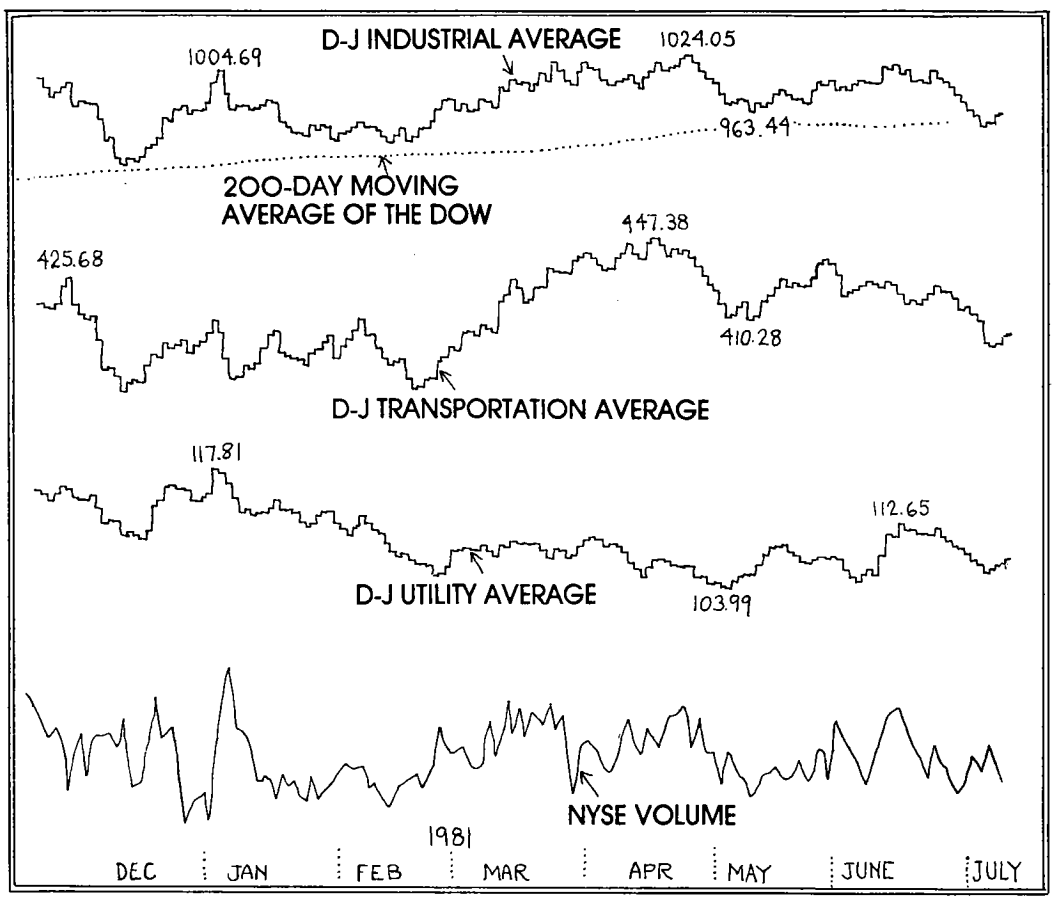
All of this action has taken place within the bearish segment of the 233-day cycle, as illustrated on the page 2 chart. Subscribers will remember that the bear segment of the cycle (see Letter 808) began at the April 27 peak and has been in effect ever since. The bear segment of the cycle is due to end in early August, and it remains to be seen whether the next bull segment of the 233-day cycle will stem or mitigate the current bearish tide.

In the last Letter I also noted that the broad NYSE Index was in position to help us identify the trend of the market. I stated that the critical points for the NYSE Index were 79 on the upside and 75 on the downside. On July 2 the NYSE Index closed decisively below 75 (at 74.73), thereby providing further ammunition for the bears. I have included on page 2 a P&F chart of the NYSE Index (chart courtesy of *Chartcraft*, Larchmont, NY), and you can see that the next major bearish signal will come at 72. If 72 is hit on a closing basis, an enormous top will have been completed.

INVESTMENT POSITION: I've taken the bull away and replaced him with a grizzly. I've also included another animal, a fish about to take the hook. Here's why. According to Dow Theory, the primary trend of the market is now down — bearish. But my Primary Trend Index (PTI), after breaking below its secondary trendline, halted about 8 points from the main trendline— then rallied a bit (see page 2 chart). Nevertheless, I am of the opinion that the Dow Theory bear signal is VALID,

and that any stock buyers from this point on are going to be hooked (that's the reason for the fish).

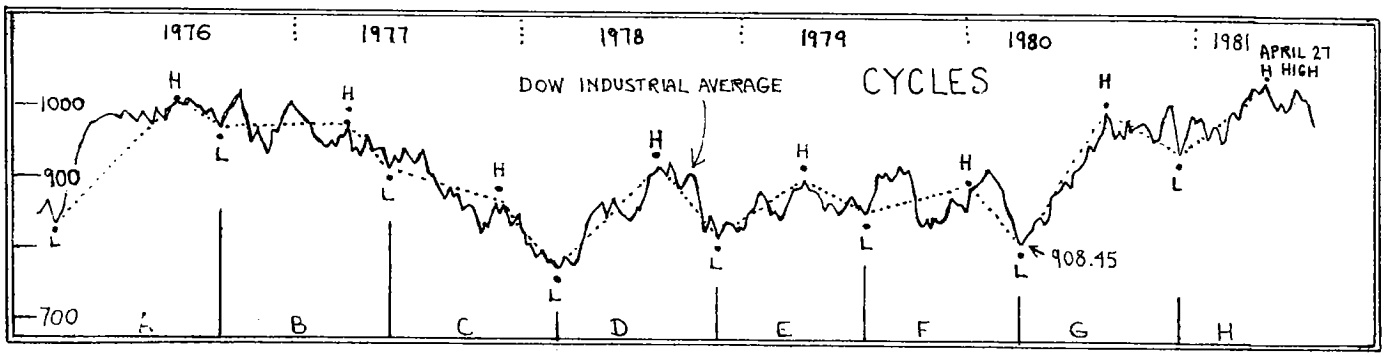
It's conceivable that my PTI will not confirm the Dow Theory, but I'm betting that it will. At any rate, I want to take a stand here for the good of my subscribers, and the bear says it all. It's time for safety, and that means 91-day Treasury bills.



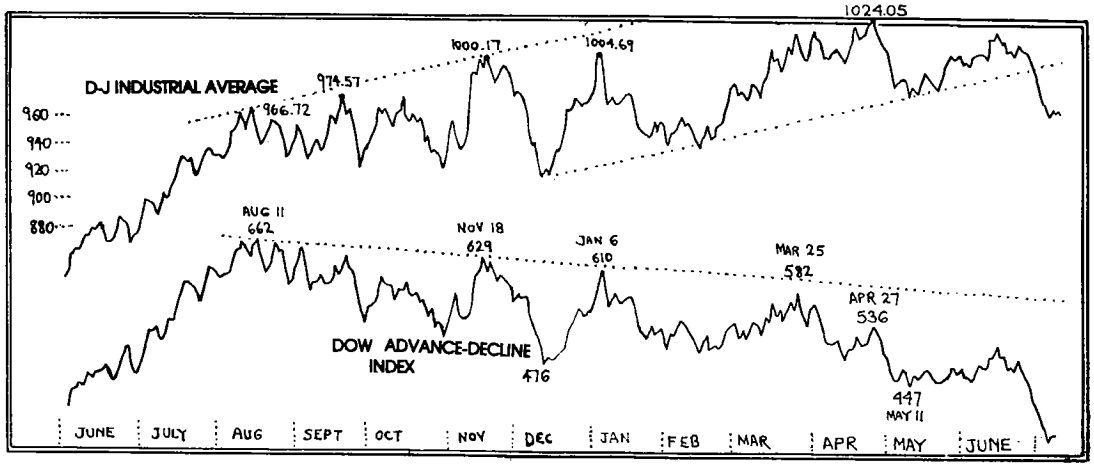
Question: Russell, the primary trend of the market is now bearish according to the Dow Theory. Do you insist that the PTI must confirm before you turn all-out bearish?

Answer: A Dow Theory bear signal is enough to turn me bearish. I would expect the PTI to confirm. The great majority of Dow Theory signals have been valid and well worth acting upon, and I had no way of knowing whether I would get a signal from the Dow Theory or the PTI first. As it happened, the Dow Theory bear signal was accompanied by a secondary bear signal from the PTI, and I am now watching the major trendline on the PTI for final confirmation. (See chart, bottom of page 2).

If, for some reason, the PTI persistently refused to violate its major trendline as shown on the



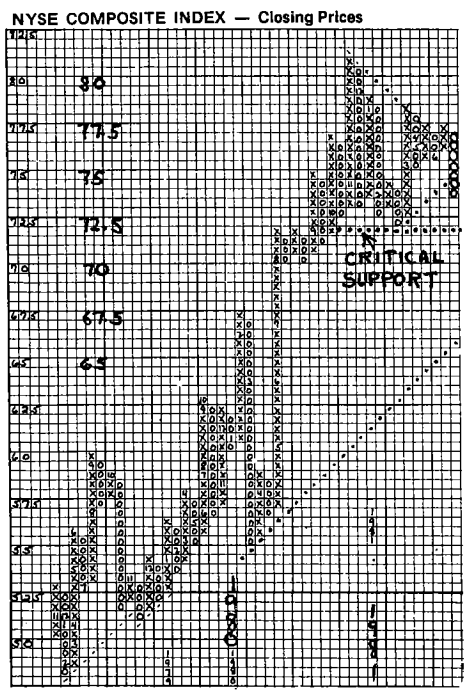
page 2 chart, I would have to question the July 2 Dow Theory bear signal. But why speculate? The Dow Theory, in signaling a primary bear market, is saying "Everybody out of the water!" So it's now time to jettison ALL common stocks! In this business it is crucial to swim WITH the tide. When a bear market is signaled, we swim with the tide by moving to cash – or Treasury bills.

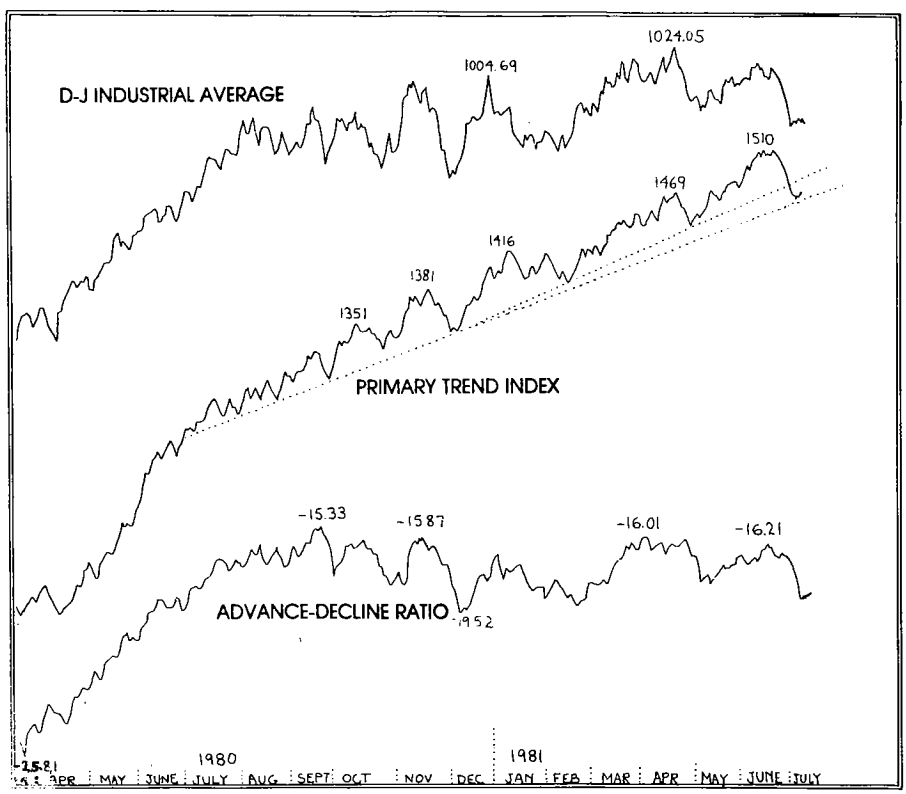


Question: Russell, what effect on the bear market do you think the bull segment of your 233-day cycle will have when it turns bullish at the end of July or in early August?

Answer: I don't know, because the bull segment will come during the very *early* phase of a newly confirmed bear market. A bear market is strong in its early phases, and all I would expect is that the bull cycle will tend to push against a powerful bear. But instead of getting a rising market during the next bull cycle, we might just get a lessening of the bearish forces. Therefore, I would NOT depend on cyclical forces to bail you out in the event that you (foolishly) intend to ride through this bear market with a portfolio of stocks.

Question: What part are the advance-decline ratios playing in this bear market?





Answer: I have written extensively about the divergences between price and breadth. The A-D ratio for the NYSE topped out (incredibly) almost three years ago on September 11, 1978 at minus 14.85. In September, 1980 we saw a lower peak of minus 15.33. And since then we have had a series of declining peaks in the A-D ratio, even while the Dow advanced. This extraordinary series of divergences has made me very wary, but the rising PTI seemed to say, "There's danger in the market, but the danger won't surface until the PTI actually turns down."

Question: You've discussed the Dow and its own A-D line. Where does that study stand now?

Answer: I am including on page 2 an up-dated chart of the Dow and its own A-D line. This line is formed by taking the plurality of the daily advances and declines in the 30 Dow stocks and adding the plurality to the previous day's total. As you can see on the chart, the Dow A-D line recorded its high last August 11 at 662. Since then, despite a rising Dow, the A-D line has traced out a series of 6 declining peaks! On July 2 (day of the primary bear signal) the Dow A-D line broke to 387, its lowest point since last June (a year ago). At that time the Industrial Average was in the 840 area, more than 100 points below today's Dow level. The action of the Dow A-D over the past year has bothered me considerably – I have never seen such flagrant divergence in this indicator.

Question: Russell, in view of the long-term bearish action of the A-D ratio, the Dow A-D line, the money markets and so forth, why did you stay positive on the stock market?

Answer: You have to follow a system in the stock market or the market will either break you or drive you out of your skull. I've stayed with the Dow Theory and my own PTI. And I explained many times to subscribers that regardless of technical and internal weakness, this market was not going to fall apart until the primary trend (as classified by Dow Theory) turned bearish and until my PTI turned bearish on a trend basis. It doesn't serve any purpose to turn bearish on the basis of weak technical data or a few weak indicators, and then wait six months or longer before the market finally starts declining.

However, because so many things about this market bothered me, I steadfastly recommended that my subscribers hold mainly T-bills in their accounts. Furthermore, I wrote repeatedly that I, myself, was in T-bills, my reasons being their great safety, their historically high yields and their great value based on a risk/reward basis. In all, I feel that this advice served my subscribers well. No subscriber who followed my advice lost a nickel and most should have averaged about 14% or better as they rolled over their 91-day Treasury bills. I should mention that the advice was given during a period where a great deal of money was lost both on the long and the short side of the market (as well as in commodities and bonds).

Note: As a curious aside to the July 2 Dow Theory primary bear signal, little or no publicity accompanied the event (probably a result of the Granville adverse bear signal publicity of early-January). *Barron's* called me on July 2, but except for a tiny notation in the July 6 *Barron's* "The Trader" column, the press of the nation remained mum. This, in my opinion, is a bad omen for the market. The less credence given a primary bear signal, the more apt that signal is to be the real McCoy!

I might add that the closer together (in time) of the final penetration by the two Averages, the more valid and authoritative the bear signal. It is notable that we had a simultaneous penetration by BOTH Averages on July 2 in that they both plunged below their May 11 lows on the *same day.*

Question: Russell, why do you always specify "Treasury bills" instead of say money market funds or bank C/D's?

Answer: Simple, I like safety. Neither the money market funds or the C/D's carry any kind of guarantee. But the T-bills carry the full faith and taxing power of the US Government. They are the Government's shortest-term and therefore most urgent debt obligation. Many brokerage houses have insurance policies up to $500,000. But if a brokerage house money market fund goes under, they cannot guarantee that you will get back the amount of any possible loss in your fund, they simply guarantee that you will get your fund shares back (in other words, they cannot guarantee the VALUE of those shares, they only guarantee that you'll receive your shares).

Question: Are you seriously worried about the US banking system?

Answer: The banking system is loaded with all kinds of debt, much of it good, a lot of it bad. Frankly, I don't know how good the banking system is – nor does anyone else. But I do know that there's nothing more ridiculous than having the foresight to be out of the market and commodities and bonds during a severe shakeout or bear market – only to find that new vehicle you switched in to is in trouble. Why be half safe – or 90% or 95% safe when you can be in T-bills. I mean, it's just simple common sense.

MONEY MONEY: On the top of page 4 I'm presenting the story of the 1981 money markets, all in the form of newspaper clips from recent newspapers. It's a story that should come as no surprise to readers of Dow Theory Letters.

On June 30 it was announced that the leading economic indicators dropped a whopping 1.8%. This was what Wall Street was supposedly waiting for. But shock of shocks, the bond market fell apart on the news. What was happening? Weren't declining inflation and sinking business supposed to rally the bond market? The answer is "Yes, under normal conditions declining business should be very bullish for bonds." But these are not normal times. The US is straining under the burden of $4.8 trillion in accumulated debts, $1.2 trillion of which is short-term debt.

To add insult to injury, on July 9 major banks raised the prime rate to 20.5%, just 1% below the record 21.5% of last December. This despite almost universal predictions (earlier in the year) of an 8-10% prime rate about now! On July 9 the *WSJ* in its "Abreast of the Market" column finally drew attention to "deteriorating corporate liquidity" and quoted a few analysts to the effect that many corporations are now in a cash bind.

There's no question about it, the money markets are becoming increasingly sophisticated. They appear to know now that declining business will mean (under super-high debt conditions) an even more pressing need for money. The result: ebbing business statistics bring no relief to the money markets, rather they tend to push interest rates higher!

LEADING INDICATORS of the economy fell 1.8% in May, after two monthly increases. The index's decline was the largest since May 1980's 2.5% drop.

By TOM HERMAN and EDWARD P. FOLDESSY
Staff Reporters of THE WALL STREET JOURNAL

NEW YORK–Bond prices plunged yesterday, ignoring economic news that many analysts thought would be bullish.

Dealers say the credit markets are struggling under the weight of large supplies of unsold securities, which continue to be expensive to finance.

Despite growing optimism about the inflation outlook over the next few months, bond analysts say dealers are preoccupied with more pressing concerns, such as how to find buyers for the large quantities of debt securities sitting on their shelves. Although more pension funds and banks lately have been buying debt securities, dealers say that many major institutional investors remain on the sidelines, waiting for clearer signals about the economic outlook.

Meanwhile, investors are being offered a growing amount of debt securities. Yesterday, for example, the Treasury auctioned $3 billion of seven-year notes at a record yield of 14.07%, easily eclipsing the previous record of 13.34% on an issue March 31.

NEW YORK–The bond market's two-day rally ended yesterday.

Prices plunged as dealers, burdened by high financing costs and concerned about the interest-rate outlook, tried to unload some of their inventories of unsold securities.

Prices of some long-term bonds tumbled almost two points, or $20 for each $1,000 face amount of securities. "It's like a wake," said Maury N. Harris, vice president of Paine, Webber, Jackson & Curtis Inc. "There has been no customer interest, and dealers have been bailing out."

Credit Markets

Increasingly, economists and others are concerned over a pronounced deterioration of corporate liquidity. By several traditional measures, the nonfinancial corporate sector, especially manufacturing, is in as tough a cash bind as it was in the worst quarter of depression-ridden 1974.

Effectively locked out of the bond markets by depressed prices and towering interest rates, companies have been crowding into the banks and the short-term debt market. With internal cash flows decreasing, they face pressing needs to finance uncollected receivables and inventories that are rising as final sales lag.

Heard on the Street

In the four weeks ended June 17, for example, total short-term business credit demand climbed at an annual rate of 32% from the average level in the four weeks ended May 20, says H. Erich Heinemann, Morgan Stanley & Co., economist.

"Our people estimate that there are at least 300 bond issues totaling $25 billion that are overhanging the market, waiting for the improvement in the bond market to continue," noted Jerome S. Katzin, managing director of Wall Street's Lehman Bros., Kuhn Loeb. Katzin, who spends part of the year in San Diego, was interviewed by phone on Wall Street.

The current $25 billion overhang-hangover is a record, said Katzin. "It's about double what it was two months ago. In December of 1979, the overhang was $8.7 billion. In March of 1980, it was $10.8 billion," he said.

NOTES & QUOTES: The oil glut could be the trigger for big trouble. Don Bauder (business Editor, *San Diego Union)* quotes a top US executive as saying, "There are more than 5 billion barrels of oil in inventory in the Western world. I'd say there may be as much as $175 billion worth of inventory in ships, tankers, all over. It may cost $35 billion a year in interest to carry that inventory. For every $1 drop in the average price of oil, there is a potential loss of $5 billion for someone to absorb. People have found substitutes for oil. In some cases oil has been permanently backed out of some boilers as a fuel because of substitutes."

"When the Reagan administration deregulated oil, it became profitable for the big oil companies to sell their domestic inventories. Because of huge supplies, such countries as Libya, Mexico, Nigeria are now sputtering along at just 30% to 50% of their normal daily output. All the major oil-producing countries had embarked on giant internal development programs, funded with loans based on a future selling price of $50 to $100 a barrel. Now they can't meet domestic cash needs – they have a negative cash flow. That's the major reason for gold price falling so steeply. These countries are frantically selling their gold because of liquidity problems. What would happen if a country such as Libya decided to sell its oil at $25 or $20?"

All I can say is that this piece has the ring of truth about it. The situation, to put it mildly, is explosive. And the operative word, as I've been saying all along, is ILLIQUIDITY!

* *

A few years ago all the investment advisers were hot and excited about the advantages of moving you or your money to another country where your assets would be "safe." Now that the dollar is strong and the German mark and the Swiss franc are weak and France is socialist and the Carribean is "unstable," the advisers have grown sullen and silent.

All right, so now you know that the US is the best place to live. But where in the US? Well, from the standpoint of taxes, there are only 7 states that have no income tax. They are Alaska, Florida, Nevada, S. Dakota, Texas, Washington, Wyoming. How about inheritance taxes? There is only one state with no inheritance tax, and that state is Nevada. All the other states have varying amounts of inheritance taxes. The book, *"How You Can Use Inflation to Beat the IRS"* (Harper and Row) ranks all the states from 1 through 35 based on BOTH incomes and inheritance tax. The list is included below with Nevada (naturally) heading the list, while the two most populous states, NY and Calif., are respectively 28 and 33. From a tax standpoint, dear readers, don't live or die in New York or California – or Oregon or Minnesota or little Rhode Island.

COMBINED INCOME AND DEATH TAX RANKINGS

Overall Rank	State	Overall Rank	State
1	Nevada	18	Missouri
(tied) 2	Alaska	19	Michigan
(tied) 2	Florida	20	Vermont
3	Wyoming	21	Oklahoma
(tied) 4	Texas	22	Kansas
(tied) 4	Alabama	23	North Carolina
5	New Hampshire	24	Illinois
6	Virginia	(tied) 25	Nebraska
7	Georgia	(tied) 25	South Carolina
(tied) 8	Arkansas	(tied) 26	Kentucky
(tied) 8	South Dakota	(tied) 26	Massachusetts
9	North Dakota	27	District of Columbia
10	Indiana	28	New York
(tied) 10	Maryland	29	Delaware
(tied) 10	Utah	30	Hawaii
(tied) 11	Colorado	31	Montana
(tied) 11	Mississippi	(tied) 31	West Virginia
(tied) 12	Connecticut	31	Idaho
(tied) 12	Arizona	(tied) 32	Maine
13	New Mexico	(tied) 32	Iowa
14	Louisiana	(tied) 33	Wisconsin
(tied) 15	Pennsylvania	(tied) 33	California
(tied) 15	Washington	(tied) 34	Oregon
(tied) 16	Tennessee	(tied) 34	Minnesota
(tied) 16	Ohio	35	Rhode Island
17	New Jersey		

* *

I don't mean to sound chauvinistic but there is a shocking difference between the telephone operators in California and New York. The New Yorkers are curt, impatient, often rude, and frequently hang up without saying good-bye. In contrast, the California operators are cheerful, helpful, always a pleasure to speak to. Maybe it's the weather . . . . . Speaking of California, when I first came here I asked, "Where are the Chinese restaurants?" I think there were two in all of San Diego. Now there are seven just in La Jolla (to say nothing of the many new Japanese restaurants) I love Chinese food, so this is one invasion I don't mind . . . . By the way, there are two retail businesses that never seem to fail (they both have big mark-ups), Chinese restaurants and flower shops. And one more, funeral parlors.

* *

I can often tell what's happening by address changes here. And I can tell you that Costa Rica is in serious trouble, because our

Costa Rican subscribers are now MOVING from this lovely tax-haven nation (which could be the next hot-spot).

* *

My friend, Mel Lippman, publisher of the internationally known US Organization Chart Service (PO Box 1335, La Jolla, CA 92038) specializes in world and US military data, org. charts, military facts, etc. He called me with the following projections for military spending (which he feels could even be on the conservative side): Fiscal year 1982 (now) $200 billion; fiscal '83 $220-230 billion; fiscal '84 a jump to $275 to $300 billion; fiscal '85 $380-410 billion; fiscal '86 a leap to $400 to $430 billion. This is the story, and you tell me where the Government is going to get the money?! Bonds anyone?

Mighty DeBeers markets most of the diamonds sold to the West. Despite the fact that DeBeers has withheld 60% of its 1981 production, diamond sales are down 41% this year.

* *

When the primary trend turns bearish, it is usually a universal event. In view of this, I thought this July 9 clip was rather interesting (price of Italian stocks are down 40% in 5 weeks!). This on top of a recent 30% drop in the French market.

From Reuters

ROME—Italy's treasury minister closed the country's stock markets Wednesday for the first time in 64 years as a collapse of prices presented the recently formed Spadolini government with a new economic crisis.

Government officials said the decision by Treasury Minister Beniamino Andreatta, closing the markets for the rest of this week, was meant to prevent a surge of sales by investors who h[illegible] pushed int[illegible]

CROWDING OUT – THE EVIDENCE: The statistics below are a section that I have cut out from page 2 of the *"Flow of Funds Accounts"* put out by the Federal Reserve Board (from the new May, 1981 edition). What we see here is a breakdown of the funds raised from the fourth quarter 1979 to first quarter 1981.

Note that for the first quarter of 1980 the funds raised by the US Government plus state and local obligations totaled $33.2 plus $1.7 or $34.9 billion. During the same first quarter the private sector (corporate, foreign bonds plus mortgages) raised a total of $37.3 billion.

Now compare these figures with the latest figures, those of first quarter 1981. Here we see the US Government plus state and local obligation jumped to 43.5 plus 4.5 or 48.0 billion, up almost 10 billion over the first quarter of 1980. Over the same period the private sector raised 29.0 billion, a drop of 8.3 billion from the first quarter of 1980.

So we see here the dramatic comparisons for the two comparable first quarters. While government raised an additional $10 billion, the private sector dropped $8 billion. This is the evidence the government with its relentlessly rising spending is crowding the private sector out of the money markets.

If this trend continues, the private sector will slump as Government sops up an increasing amount of the available capital. On the other hand, if the private sector steps up its financing we can expect new highs in interest rates as the battle for available credit continues.

Much is now being made of the decline (or hoped for decline) in the money supply. But it is easy to see what could happen if the money supply really drops off. There will be a huge squeeze as the battle for funds goes on. So as far as the security markets are concerned, any dramatic drop in the money supply could prove a lot less bullish than most people think.

Now study column 5 which is US Government securities and this column includes all funds raised by the Government and its agencies. This is the REAL GOVERNMENT DEFICIT, and for the fourth quarter of 1980 this deficit was $126.5 billion. Note that the first quarter of 1981 (which is the latest figure) shows an increase to $43.6 billion over 1980's first quarter of $33.2 billion. This is AN INCREASE OF 30%. On this basis, we can see that the needs of the Government are sky-rocketing, and we can therefore expect tremendous new pressure in the bond markets as the Federal Government takes on all comers for cash.

Before it's all over, I expect to see new highs in interest rates and massive new cuts in Federal expenses, particularly in the social programs. What's happening is that Government agencies and off-budget expenses are literally eating this nation up alive!

Question: Russell, how do we as investors and survivors make use of the statistics you are showing us?

Answer: I believe we are moving into a major credit crunch area, an area which will produce extraordinary new highs in interest rates. I personally am thinking in terms of trying to buy long-term Treasury bonds (20 year maturities) at rates as high as possibly 16% or more. This should come prior to a great "sobering up" on the part of the American people and the Government. When the sobering up and ultimate liquidation of debt arrives, the stage will be set for a bull market in bonds. That should produce great profits for holders of Treasury debt—even though many people may elect to sit with their bonds which will be yielding historically high rates.

SUMMARY OF FUNDS RAISED IN CREDIT MARKETS

	1979 IV	1980 I	1980 II	1980 III	1980 IV	1981 I
TOTAL FUNDS RAISED	127,148	98,188	71,232	118,074	146,876	105,977
INVESTMENT COMPANY SHARES	191	-390	802	586	757	580
OTHER CORPORATE EQUITIES	2,651	3,137	1,624	3,711	4,766	3,778
DEBT INSTRUMENTS	124,306	95,441	68,806	113,777	141,353	101,619
U.S. GOVERNMENT SECURITIES	35,176	33,218	14,994	35,941	42,531	43,581
STATE + LOCAL OBLIGATIONS	3,942	1,752	6,737	10,260	6,286	4,544
CORPORATE + FOREIGN BONDS	6,360	6,204	16,882	8,810	3,866	4,451
MORTGAGES	36,790	31,107	23,564	33,953	36,959	24,579
CONSUMER CREDIT	10,571	-3,836	-5,961	4,477	7,622	-2,484
BANK LOANS N.E.C.	9,508	5,646	-2,305	17,146	27,932	6,178
OPEN-MARKET PAPER	9,403	11,938	9,821	-1,468	1,101	14,576
OTHER LOANS	12,556	9,412	5,074	4,658	15,056	6,194

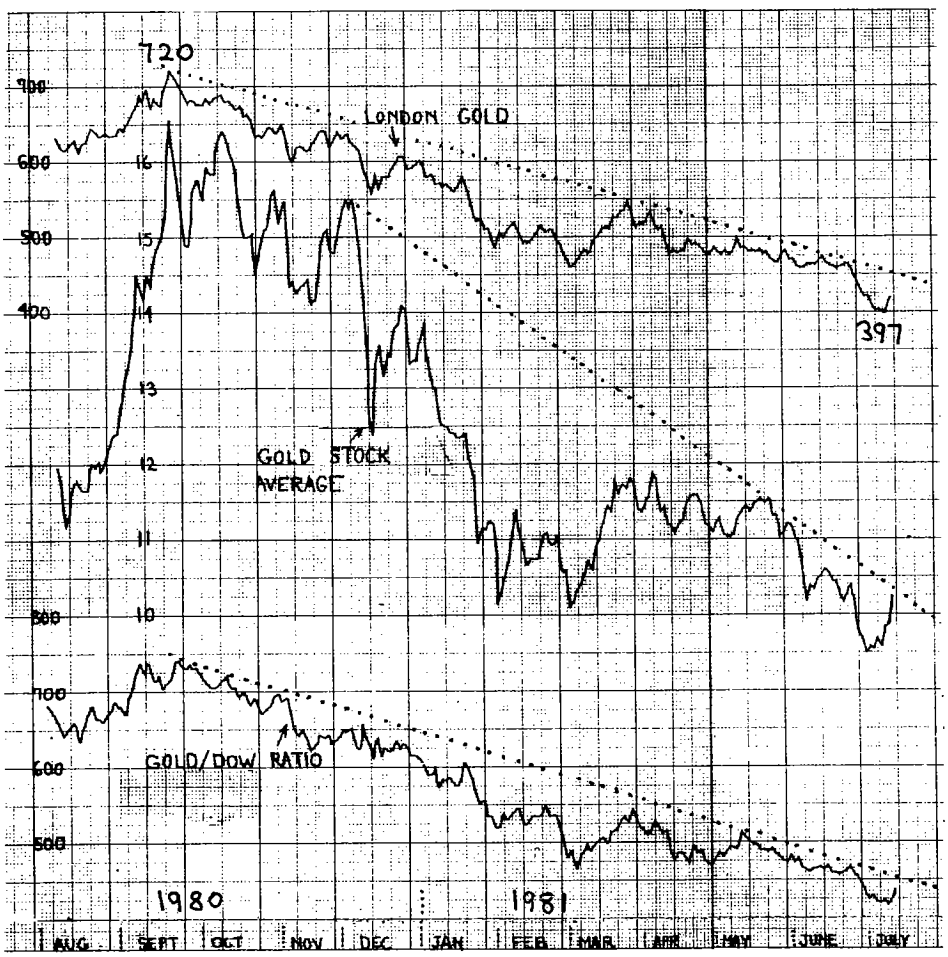
GOLD: There is laughing and hand-clapping in many quarters as gold tumbles down to and below the 400 level. And I turn to the famous and fateful editorial (entitled "Turn of the Tide") written by Wall Street Journal editor William Hamilton on October 26, 1929. Hamilton ended his piece with the following words: *"Some time ago it was said in a Wall Street Journal editorial that if the stock market was compelled to deflate, as politicians seemed so earnestly to wish, they would shortly after experience a deflation elsewhere which would be much less to their liking."* And I wonder if we can't substitute the word "gold" for "stock market" in the above editorial.

Gold turned up in 1971 at a price of $35 an ounce. By January, 1980 gold had reached $850 an ounce. This was a rise of 815 points. By July 1981 gold was down to the 400 level, a drop representing a loss of 450 points or 55.2% of all the gains of the past 10 years. This is a most serious decline and it obviously represents something more than a mere correction.

What does the 450 point slide represent? In my opinion, it could well represent a true harbinger of deflation. I say this because any time a major advance lasting many months to many years is followed by a decline that wipes out more than 50% of all the previous gains, the implications are that something very important and FUNDAMENTAL is occurring.

From here on, I urge subscribers to be completely OPEN-MINDED about gold. Gold has caved in, it has lost its following, most people would not now touch gold with the proverbial "ten foot pole." What we might remember, however, is that every crash in market history has been followed by a recovery, and the recoveries tend to be almost as violent as the crashes which preceded them. Somewhere along the line, gold is going to turn around (either technically or fundamentally) and rend the shorts. When it does, it will be something to view.

As you can see on this daily chart, gold has dropped on a trendline basis from a high of 720 last September to a July 7 low of 397. The July 7 low was NOT confirmed by the gold stock average, as this average hit a low of 9.50 on June 30. That downside nonconfirmation has set off a rally in both indices, and it is notable that the gold stock average is stronger than the bullion.



At a price of 450, bullion would reverse its downward trend while 10.50 would reverse the declining trend in the gold shares. Should both of these declining trendlines be reversed, gold positions could be established on the thesis that either (1) a major correction was in order or (2) the gold bear market was over.

Another area I am watching is the RATIO between gold and the Dow, and this ratio is shown at the bottom of the chart. No major move in gold is liable to develop until gold starts acting BETTER than common stocks, and such an event will be signaled when the gold/Dow ratio breaks above its 10-month declining trendline.

My friend, Bob Prechter (editor of the *Elliot Wave Theorist*, PO Box 262, Chappaqua, NY 10514) has been superb in calling the shots for gold. Bob opines that gold is near the wind-up of its bear market. He expects one more rally, perhaps to the 440-450 area, then a final decline to around 388 at which point he says "Buy." He expects the final decline to end this fall. It sounds likely and logical to me. Prechter expects a new bull market to start in the fall with gold reaching astronomical heights of up to 5,000 somewhere around 1986 (Bob's actual projection is 5040 based on Fibonacci computations).

(Note: I use the bid price on International Investors, a gold fund, for my gold stock average, and this price can be checked in the mutual fund section of your daily newspaper).

I find the moving averages to be of great use in identifying points of support or resistance. Right now the short or 5-week MA for gold is 430, the 13-week MA is 459 and the major (primary) or 50-week MA for gold is 517. Thus the first goal for gold is to move above its sensitive or 5-week MA at the 430 level.

LATE NOTES: As the new week begins, the stock market has been trying to mount a rally. The recent low for the PTI (recorded on July 6,7,8) was 1465. On July 10 the PTI was 1475. Incredibly, the PTI (see p. 2 chart) has again bounced off its major trendline. Whether the PTI can mount another major rally above the long-term trendline remains to be seen.

On the moving average studies, the Dow is now beginning to evidence weakness. On July 2 the most sensitive or 5-week MA broke below the 13-week MA. The 5-week MA for the Dow now stands at 974, while the 13-week MA is at 983. Thus, the target for the Dow (if it is to show renewed strength) is to rally above its 5-week MA level at 974.

NEXT MAILING: July 29